

APPROVAL

**Access Arrangement and
Access Arrangement Information**

For

Albury Gas Company Limited

**Natural Gas Distribution System
In Albury, Jindera**

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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**Natural Gas Distribution System
in Albury and Jindera**

The Tribunal members for this review are:

**Dr Thomas G Parry, Chairman
Mr James Cox, Full time member
Ms Cristina Cifuentes, Part time member**

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1 INTRODUCTION

In June 1998, the Albury Gas Company (AGC) submitted its proposed Access Arrangement (AA) for the natural gas distribution system in Albury, Moama and Jindera to the Independent Pricing and Regulatory Tribunal of NSW (the Tribunal).

The Tribunal initially reviewed AGC's AA based on the Third Party Access Code for Natural Gas Networks in New South Wales. However this was repealed and effectively replaced by the National Third Party Access Code for Natural Gas Pipelines Systems (the Code) on 14 August 1998. The review is thus made under the Code. The process of the review included:

- advertisement of the proposed AA and Access Arrangement Information (AAI) for public comment on 26 June 1998
- public hearing was held on 27 August 1998
- customer information session held on 14 July 1998
- release of the Draft Decision on 2 July 1999 for public comment
- release of the Final Decision on 3 December 1999.

The final decision required 34 amendments to be made to the AA and AAI before the Tribunal approved it. AGC was required to and did submit its revised AA and AAI by 31 January 2000.

This is the approval document for AGC's AA. This approval should be read in conjunction with the final decision. The Tribunal's final decision on AGC's original AA and AAI gives the reasons why the Tribunal required the amendments, which AGC has now made.

2 ASSESSMENT OF AGC'S REVISED ACCESS ARRANGEMENT AND ACCESS ARRANGEMENT INFORMATION

2.1 Access Arrangement Information

AGC submitted its revised AA and AAI on 31 January 2000. The Tribunal has assessed AGC's revised AAI to ensure that the updated tables and information incorporate the changes required to the AA, as specified in the final decision.

The Tribunal is satisfied that the revised AAI is consistent with the required amendments.

2.2 Access Arrangement

An evaluation of AGC's AA and new pricing model has been carried out. The Tribunal is of the view that they are reasonable and consistent with the final decision.

2.2.1 Compliance with amendments required in the final decision

Where AGC has provided both the nominal and real values, the estimated CPI change that it has used is 2 per cent a year. The Tribunal has used an estimated CPI growth rate of 2.5 per cent in its calculations. In assessing AGC's revised AAI, the Tribunal is satisfied that the real dollar values provided in the revised AAI are consistent with the real dollar values in the final decision.

Below outlines the Tribunal's assessment of whether the required amendments in the final decision have been made in the revised AA and AAI that AGC has submitted.

The data in Tables 1 to 9 are taken from AGC's revised AAI.

Amendment 1 – Exclusion of Moama

AGC was required to amend its AA and AAI to:

- reflect 1999 as the first year
- exclude Moama.

Tribunal's assessment

The data in AGC's models have been adjusted to exclude amounts attributable to Moama and has 1999 as the base year.

Amendment 2 – Rate of return

The rate of return used in the proposed cost of service methodology for calculating total revenue must not exceed 7.75 per cent in real, pre tax terms. This is consistent with a nominal post tax return on equity of approximately 12 per cent.

Tribunal's assessment

AGC's models have been adjusted based on a pre tax real weighted average cost of capital of 7.75 per cent to comply with this required amendment.

Amendment 3 – Initial capital base

The initial capital base (ICB) for AGC's covered pipeline in Albury must be set at a value no higher than \$22m at 1 January 1999.

Tribunal's assessment

AGC has adopted the ICB of \$22m and has allocated the write down to the mains and connections asset category.

Table 1 Asset value at 1 January 1999 (\$m)

Asset As at 1 January 1999	Group	Depreciated Optimised replacement cost	Initial capital base
Mains and Connections		20.86	19.49
Meters – Domestic		1.87	1.87
Meters – Other		0.58	0.58
Non-system assets		0.06	0.06
Total		23.37	22.00

Table 2 Asset remaining lives

As at 1 January 1999	Initial capital base \$m	Remaining Lives (yrs)
Mains and Connections	19.49	42
Meters – Domestic	1.87	16
Meters – Other	0.58	17
Equipment and Vehicles	0.06	3
Total	22.00	

Note: Land and buildings are excluded.

Amendment 4 – Rolling forward the capital base

For the purpose of calculating reference tariffs during the AA period, AGC is required to roll forward the regulatory asset base as follows:

- a) include forecast capital expenditure which meets the prudence test for the period 1999 to 2002
- b) deduct forecast regulatory depreciation
- c) index the regulatory capital base annually from 1 January 1999 using the CPI which is defined as the All Groups Consumer Price Index (weighted average of eight Australian capital cities) published by the Australian Bureau of Statistics.

The capital base at the start of the next AA period is determined under provisions of the Code.

Tribunal's assessment

In rolling forward its capital base, AGC has met the requirements of amendment 4 of the final decision.

Amendment 5 – Depreciation

The depreciation component must be calculated based on the regulatory capital base only, thus reflecting the initial capital base determined by the Tribunal. For the purpose of calculating target revenue, depreciation on forecast new facilities investment (as adjusted by the Tribunal) will be allowed in the cost of service model. The Tribunal requires AGC to amend the regulatory depreciation consistent with its responding submission of 3 August 1999. The regulatory depreciation expressed in 1999 dollars is \$0.66m in 1999 and \$0.65m a year over the period 2000-2002.

Tribunal's assessment

The table below, which AGC have titled "Table 5: Current Cost Depreciation" is consistent with amendment 5 in the final decision.

Table 3 Depreciation

	Year ending 31 December			
	1999	2000	2001	2002
<i>Nominal \$m</i>				
Mains and Connections	0.48	0.49	0.50	0.51
Meters – Domestic	0.12	0.13	0.13	0.14
Meters – Other	0.04	0.04	0.04	0.05
Equipment and vehicles	0.02	0.02	0.01	0.01
Total	0.66	0.67	0.68	0.70
Total Depreciation (Real 1999 \$m)	0.66	0.65	0.65	0.65

Note: Table figures may not add up due to rounding.

Amendment 6 – Forecast capital expenditure

For the purposes of calculating reference tariffs during the Access Arrangement period, AGC is required to revise its forecast capital expenditure as follows:

	Real 1999 \$m
1999	0.755
2000	0.732
2001	0.734
2002	0.745

Tribunal's assessment

The following capital expenditure values, which AGC has used in rolling forward its capital base for the purposes of calculating reference tariffs, are consistent with the final decision.

Table 4 Capital expenditure (real 1999 \$)

\$m	Year ending 31 December			
	1999	2000	2001	2002
Mains	0.23	0.22	0.22	0.23
Connections	0.36	0.35	0.35	0.35
Meters – Domestic	0.08	0.08	0.08	0.08
Meters – Other	0.07	0.07	0.07	0.07
Equipment and vehicles	0.01	0.01	0.01	0.01
Total	0.76	0.73	0.73	0.75

Note: Table figures may not add up due to rounding.

Amendment 7 – Non capital costs

AGC is required to amend its non capital costs (operating costs) forecast, ie its operating and maintenance costs. These must be reduced by \$170,000 per year to remove the costs associated with the transportation of gas from the Wodonga city gate in Victoria across the Murray River to the AGC distribution system (\$120,000) and the operating cost relating to the Moama distribution system (\$50,000).

Tribunal's assessment

AGC's revised operating costs for the years 1999 – 2002 are consistent with the final decision. Table 5 presents AGC's revised operating and maintenance costs and Table 6 provides a further breakdown of the operating costs.

Table 5 Total overhead and maintenance Costs (real 1999 \$)

\$m	Year ending 31 December			
	1999	2000	2001	2002
Overhead costs	0.17	0.17	0.16	0.16
Marketing costs	0.03	0.03	0.03	0.03
Operational costs	0.76	0.71	0.66	0.62
Authorisation fee	0.06	0.07	0.07	0.07
Total Operating & Maintenance costs	1.02	0.97	0.92	0.88

Note: Table figures may not add up due to rounding.

Table 6 Operating expenses - year ended 31 December

\$m	1999	2000	2001	2002
Labour	0.33	0.33	0.34	0.35
Outside Services	0.06	0.06	0.06	0.06
Alliance Partners	0.12	0.12	0.12	0.13
Overheads	0.20	0.20	0.20	0.20
Contracted Industry Services	0.34	0.31	0.30	0.29
Computer and Office Equipment	0.10	0.10	0.10	0.10
Materials	0.02	0.02	0.02	0.02
Other Distribution Services	-	-	-	-
Other Costs	0.14	0.14	0.12	0.10
Property Tax	0.06	0.06	0.06	0.06
Less Capitalised Labour and Overheads	(0.35)	(0.35)	(0.36)	(0.37)
Total O&M Costs	1.02	0.99	0.96	0.93
Real Total O&M Costs (1999\$m)	1.02	0.97	0.92	0.88

Note: Table figures may not add up due to rounding.

Amendment 8 – Price Cap

AGC must submit reference tariffs which, if applied over the whole year 1999 and subsequent years to 2002, must be consistent with total revenue as follows:

Revenue path in real 1999 \$m

	1999	2000	2001	2002
Total	3.41	3.35	3.30	3.27

Within this revenue cap, AGC is required to establish reference tariffs in each of the years, 1999-2002, expressed in real 1999 dollars. The reference tariffs will be adjusted by the change in CPI (EX-GST) over the year to September quarter immediately preceding the start of the relevant calendar year. CPI (EX-GST) is defined as follows:

“**CPI (EX-GST)**” means the consumer price index, All Groups index number weighted average of eight capital cities exclusive of the impact of the net effect across those eight capital cities of:

- (a) the ‘GST’ (as that expression is defined in *A New Tax System (Goods and Services Tax) Act 1999*); and
- (b) changes to any other Commonwealth, State or Territory taxes or charges, consequent upon the introduction of the GST,

(the ‘Index’)

as calculated and published by the Australian Bureau of Statistics from time to time, or if the Australian Bureau of Statistics does not, or ceases to calculate and publish the Index then CPI (Ex-GST) will mean:

- (c) an index published by Commonwealth Treasury which is its best estimate of the Index; or
- (d) if Commonwealth Treasury does not, or ceases to publish an index then an index published by the Reserve Bank of Australia which is its best estimate of the Index; or
- (e) if the Reserve Bank of Australia does not, or ceases to publish an index, then the Relevant Regulator’s discretion, either:
 - (i) an index published by a person appointed by the Relevant Regulator which is that person’s best estimate of the Index; or
 - (ii) an index published by the Relevant Regulator that is its best estimate of the Index.

Reference prices must apply two weeks after the final approval of AGC’s revised Access Arrangement.

Tribunal’s assessment

AGC’s has adopted the final decision on ICB, rate of return, depreciation and O&M. Its real revenue stream is therefore consistent with the final decision. AGC has amended the definition of the CPI to make it consistent with the final decision. Table 7 presents AGC’s target revenue, which is consistent with the revenue path described in amendment 8.

Table 7 Target revenue (real 1999 \$)

\$m	Year Ending 31 December			
	1999	2000	2001	2002
O&M Costs	1.02	0.97	0.92	0.88
Depreciation	0.66	0.65	0.65	0.65
Return on Assets	1.73	1.73	1.73	1.74
Total	3.41	3.35	3.30	3.27

Amendment 9 – Cost allocation methodology

The Access Arrangement should be amended so that:

- the description of the allocation methodology reflects the cost allocation methodology adopted
- the cost allocation methodology reflects the costs of providing transportation services to customers
- the cost of supply model reflects the ORC and DORC values encompassed in the GHD Asset Valuation report (GHD, October 1998 with amendments on 12 February 1999)
- return and depreciation are allocated based on ORC.

Tribunal's assessment

The cost allocation methodology and its application in the models are consistent with the required amendment.

AGC was required to use the ORC and DORC values from GHD's revised report,¹ which excludes the Moama assets, for purposes of allocation of return and depreciation. The Tribunal has examined the pricing and costing models of AGC and is satisfied that the relevant tables have been adjusted to adopt the ORC and DORC values provided by GHD's revised report.

Amendment 10 – Fixed charge to tariff V customers

The fixed charge to tariff V customers should be increased to \$50 per year.

Tribunal's assessment

AGC has increased the fix charge to tariff V customers to \$50 per annum. This translates to \$0.137 per day.

Amendment 11 – Tariff D MHQ for tariff derivation

The MHQ level used to derive tariffs must mirror the MHQs agreed with tariff D customers as presented by AGC in its response to the Tribunal's draft decision.

Tribunal's assessment

AGC has adjusted the models to use the MHQ data agreed to by the customers.

¹ Gutteridge Haskins & Davey Pty Ltd, *Revised Report on Infrastructure Assets Valuation at June 1997 covering Albury/Lavington/Jindera*, Oct 1998.

Amendment 12 – Price structure for tariff D

The price structure to tariff D customers should reflect AGC's response to the Tribunal's draft decision.

Tribunal's assessment

In its response to the draft decision, AGC proposed to alter²

... the distribution cost of service treatment of AGC's "transmission main". This has led to flatter steps, with a material change in the relationship between the second and third bands of Tariff D. The end result is a tariff structure, within the context of the methodology in the cost of supply and tariff models, that is cost reflective but which also captures the peculiarities of the Albury distribution system.

AGC has adjusted the models according to the required amendment.

Amendment 13 – Growth forecasts

AGC's growth forecasts should be consistent with the following table:

AGC volume forecasts (GJ)				
	1999	2000	2001	2002
Contract	1,935,326	1,935,326	1,935,326	1,935,326
Volume	927,357	945,886	961,977	979,543
Total	2,862,683	2,881,212	2,897,303	2,914,869

Tribunal's assessment

AGC has adopted the growth forecast shown in the following tables in its models, which are consistent with the final decision.

Table 8 Tariff V and tariff D forecast volumes (GJ)

	Year Ending 31 December			
	1999	2000	2001	2002
Contract	1,935,326	1,935,326	1,935,326	1,935,326
Volume	927,357	945,886	961,977	979,543
Total	2,862,683	2,881,212	2,897,303	2,914,869

Table 9 Forecast customer numbers

	Year Ending 31 December			
	1999	2000	2001	2002
Contract	8	8	8	8
Volume	15,926	16,201	16,477	16,758
Total	15,934	16,209	16,485	16,766

² AGC, *Response to IPART's Draft Determination on the Access Arrangement for Albury*, August 1999, p 18.

Assessment of Amendments 14 - 34

Amendments 14 to 34 relate to the content and operation of the AA. The Tribunal has requested certain sections be deleted, added or redrafted. After assessing the revised AA, the Tribunal is satisfied that AGC has made the necessary changes in the revised AA to incorporate the required amendments. The amendments are listed below for convenience.

Amendment 14 – Negotiated services

Section 5.1.1(a) of the AGC's AA must include negotiated services. Section 5.1.2(c) should be deleted.

Amendment 15 – Payment for extensions/expansions

AGC must revise section 5.1.6(a)(3) and 5.1.6(d)(1) of its AA to clarify the requirements of a user in relation to extensions/expansions under the service policy.

Amendment 16 – Metering charges

The metering charge must reflect the service and meter costs allocated to Tariff D customers in the cost of supply model. A schedule of metering charges and method of payment (ie lump sum or instalment) must be provided in the AA. Transportation charges to Tariff D customers should be derived net of the metering charge.

Amendment 17 – Meter reading

Section 5.1.7 and 5.1.8 of AGC's Access Arrangement must specify its policy on meter reading. The wording should be consistent with that proposed by AGC in its response to the Tribunal's draft decision.

Amendment 18 – Gas specification

Schedule 4 of AGC's AA, Gas Quality Specification, must be amended by adding a statement at the beginning of the schedule to the effect that gas delivered to a receipt point by a user must comply with the specifications prescribed by any law that extends to that gas. If there are no such laws, the gas must comply with specifications determined by AGC from time to time. Failing such a determination, the table set out in Schedule 4 (the 'default specification') will apply.

Amendment 19 – Reference tariff policy

AGC is required to include in its AA a Reference Tariff Policy. The wording of this policy should be consistent with section 3.2 of AGC's existing AAI.

Amendment 20 – Trading policy

The trading policy must comply with the Code. In particular, transfers that are 'bare transfers' should not require the consent of the service provider.

The trading policy must include a statement to the effect that the trading policy ceases to apply to a Covered Pipeline that is a Market Carriage Pipeline permitted under section 3.8 of the Code.

Amendment 21 – Queuing policy

AGC's queuing policy must be revised to comply with paragraph 6.4.2 of this draft decision.

Amendment 22 – Extension/expansion policy

An extensions/expansions policy should be included in the AA which addresses the requirements of section 3.16 of the Code. The policy wording should reflect AGC's response to the Tribunal's draft decision on this matter.

Amendment 23 – Revisions submission and commencement dates

AGC must include in its AA a revisions submission date of 31 December 2001 and a revisions commencement date of 1 January 2003.

Amendment 24– Unaccounted for gas (UAG)

The requirements imposed on Users in relation to UAG should be outlined in AGC's AA. The approach should be consistent with that detailed by AGC in its response to the Tribunal's draft decision. Customers supplied directly off the transmission pipeline are to face a UAG allowance of 0.1 per cent, and other customers supplied off the high pressure system will face a UAG allowance of 4.1 per cent.

Amendment 25 – Curtailment policy

Schedule 5 of AGC's AA must reflect the words in section 5.1.14 of AGC's AA.

Amendment 26 – Security deposit

An additional part should be added to section 5.1.16(c) of AGC's AA, indicating that the policy on security deposits will be applied in a competitively neutral manner.

Amendment 27 – Variation to reference tariffs

The following amendments to section 5.2.4 of AGC's AA are required:

- section 5.2.4(a)(2) is to be altered to refer to a Negotiated Service Agreement
- the table in section 5.2.4(b)(1) is to be presented to two decimal places
- section 5.2.4(c) should be altered to:
 - i) require the service provider to make an application to the Tribunal proposing a revision to the Access Arrangement to reflect the change
 - ii) indicate that the Tribunal will have the discretion to appoint an independent auditor to ascertain the impact on reference tariffs. The approval of a change in reference tariffs will be based on the Tribunal's review of the independent auditor's advice
 - iii) indicate that costs associated with the appointment of such an independent auditor, ie the auditor's fee to AGC, will be passed on to customers over the remaining period of the Access Arrangement, subject to the regulator's approval. When these costs are passed on, reference tariffs will be increased so that over the remaining period of the Access Arrangement, the increase will raise additional revenue equivalent to the costs of the independent auditor

- iv) indicate that any burden or benefit of any adjustment to the reference tariffs to which AGC is entitled will be allocated on the same basis that AGC allocated the relevant costs or similar costs to develop the reference tariff or in the manner prescribed by law.

Amendment 28 – Connection of third party distribution systems

Section 6.2 of AGC's AA must be amended such that:

- section 6.2.2(b) must indicate that AGC will own the valve
- section 6.2.6 must indicate that disconnection and isolation is only required where the cessation is permanent.

Amendment 29 – Trigger mechanisms

Section 7.1.2(a)(3) and (4) should be deleted from AGC's AA. Further, an additional mechanism must be added requiring AGC to, within the period of one month following the development of state or national policy for the introduction of retail contestability to the tariff market (as determined by the Tribunal), submit revisions consistent with that policy.

Amendment 30 – Fixed principles

Section 7.1.3 of AGC's AA referring to fixed principles should be removed.

Amendment 31 – Confidential information

Section 8.2.2(a)(2)(A) of AGC's AA should be amended to include the words '... any Related Bodies Corporate not engaged in natural gas retailing', consistent with AGC's response to the Tribunal's draft decision.

Amendment 32 – Charges to previous and new retailers

Section 1(b)(4) of schedule 1 of AGC's AA should be amended so that when a retailer ceases or commences supply to a particular customer, charges for that month will be levied on a pro rata basis. Where charging on a pro rata basis unreasonably increases the costs to AGC, it can require the new retailer to manage the timing of the customer transfer. This would be expected to be approximately in line with the normal gas billing cycle.

Also, an additional section should be added stating that AGC agrees to comply with the customer transfer protocol that is established for NSW.

Amendment 33 – Miscellaneous

Section 1.4 of AGC's AA should be altered to remove the reference to the AA lapsing.

Amendment 34 – Reference tariffs after 31 December 2002

An additional section should be added to section 7.1 of AGC's AA stating that if the revisions do not commence on the planned revisions commencement date of 1 January 2003, the 2002 reference tariffs will be maintained at their existing level until the new access review has been completed. The clause should relate to all terms and conditions of reference services, not just prices.

2.3 Other issues

2.3.1 Issue of depreciation understatement

Subsequent to the submission of the revised AA/AAI on 31 January 2000, AGC has notified the secretariat that the depreciation that it submitted in its response to the draft decision has been slightly understated.

The Tribunal is not able to consider this additional information. Although it is not able to bind future regulators, the Tribunal considers that it should be appropriate for this issue to be considered further at the next review.

3 TRIBUNAL APPROVAL

Section 2.19 of the Code states:

If the Service Provider submits a revised Access Arrangement by the date specified by the Relevant Regulator under section 2.16(b), which the Relevant Regulator is satisfied incorporates the amendments specified by the Relevant Regulator in its final decision, the Relevant Regulator must issue a final decision that approves the revised Access Arrangement.

The Tribunal is satisfied that AGC's revised AA and AAI incorporate the amendments specified in the final decision. Subsequently, the Tribunal approves:

- the revised AA for AGC submitted to the Tribunal on the 31 January 2000 and
- the revised AAI for AGC submitted to the Tribunal on the 31 January 2000.

4 COMMENCEMENT DATE

Subject to the Code and the Gas Pipelines Access Law, this decision to approve the revised AA and AAI for AGC (each submitted to the Tribunal on 31 January 2000) is effective from the date of its publication.

The Tribunal notes that AGC has stated in its revised AA and AAI, submitted on the 31 January 2000, that the commencement date will be two weeks after the approval by the regulator.

5 AGC - CONTACT DETAILS

Any requests for hard copy of the approved AA and any inquiries regarding access to the distribution system in Albury and Jindera should be addressed to:

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